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SUBJECT: NIGERIA: LONDON CLUB DEBT BUY-BACK POSTPONED TO
ALLOW ABACHA FAMILY TO PARTICIPATE

1. (U) Summary: The Government of Nigeria's (GON) attempt to buy back \$2 billion of its London Club (commercial) debt obligations suffered a setback Friday, December 6, when a court injunction sought by the family of the late military dictator Sani Abacha forced a postponement of the auction to December 20. The Abacha family holds 23 percent of the Brady Bonds and other debt slated for the debt redemption scheme. However, these Abacha assets were previously frozen by court action at the request of the Nigerian government. The Nigerian government and other claimants to the Abacha funds agreed to allow the family to participate in the buy back. End summary.

2. (U) Director-General of the Debt Management Office Akin Arikawe told us that the Abacha family had bought their bonds with money taken directly from Central Bank accounts during the regime of the late dictator Sani Abacha. Arikawe confirmed that the par bonds were part of the Abacha assets frozen at the request of the Nigerian government. However, both the DMO and lead adviser to the buy-back scheme, Citigroup, appear to have overlooked the Abacha bonds when they planned the debt buy back. Consequently the Abacha family obtained a court order enjoining the December 6 auction and allowing them to participate. The court granted their request with the acquiescence of the GON and the Noga family, which is headed by a Lebanese businessman who was formerly a business partner of Sani Abacha and part owner of the Abuja Hilton. The court stipulated that the cash derived from sale of the instruments would be frozen in a special account. The extension of the deadline to December 20 will also mollify other bondholders who complained about the non-disclosure of the Abacha bonds in the initial offer document.

3. (U) According to Arikawe, the GON and Noga family decided it was ultimately better to include the Abacha \$470 million in par bonds (of the \$2 billion total) in the auction. Without such participation, the GON would not reach its goal of reducing London Club debt stock/servicing by 75 to 85 percent. Arikawe was also concerned that bond holders who chose not to participate in the auction would find their bonds linked to the Abacha bonds which by then would make up the preponderance of nonconverted bonds. The value and status of these bonds could be linked, however unintentionally, to the outcome of the GON v. Abacha court case, opening the GON to the possibility of new court cases from bond holders other than the Abachas. Citigroup had participated in freezing Abacha assets and -- according to the DMO Director General -- should have known about the Abacha par bonds. Like Arikawe, Citigroup apparently somehow overlooked the problem when they put the prospectus together.

4. (SBU) Arikawe confirmed that President Obasanjo consented to inclusion of the Abacha bonds in the sale, even though this might lead to the perception the President was giving in to the deceased dictator's family once again. Arikawe thinks it is simpler to accede to the request, rather than become enmeshed in another series of drawn out court cases.

5. (SBU) Comment: Newspaper headlines about the Abacha family stopping the auction were undoubtedly embarrassing for the Presidency, especially after the late dictator's son Mohammed Abacha reneged on a reported agreement to return US \$1.3 billion in exchange for his release from prison and dropping murder charges against him. Arikawe believes there will be little permanent political fallout from the delayed buy-back and he is likely right. Instead of criticizing the President on this point, most Nigerians will focus on the bitter irony of the Abachas' using the judicial process to protect their position as a creditor and their ownership of assets purchased with funds stolen directly from the Nigerian treasury. Nevertheless, continuous problems with the buy-back will hurt Nigeria's objective of reducing its debt-servicing burden. Thus, a hitch-free December 20 auction might be the kind of Christmas present Arikawe and the DMO are hoping for.

JETER